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# Understanding China's Economic Success: "Embeddedness" with Chinese Characteristics

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## Abstract

This study attempts to provide a framework for understanding the role of the "embeddedness" in China's economic success reflected by a unique embedded integration of state-market-society relations. "Embeddedness with Chinese characteristics" is the central concept of this study for analyzing how cultural and political uniqueness influences economic activities and shapes distinctive institutional forms. In order to grasp the factors behind the Chinese economic success, it is important to understand how the disembedded forces of marketization and commodification were balanced by the embedded forces of socio-cultural and political structures. These historically and culturally shaped structures, such as the active role of the state and local governments, the variety of forms of property and business ownership, the traditional culture of clientele-based social relations, etc., provide rich empirical context to explain and analyze the "embedded" hegemony in transitional China. The first part of the this paper provides a conceptual framework for understanding socio-cultural and political embeddedness in China and the second part analyzes some characteristics of the state-market-society embedded process during its economic development in the past decades. The conclusion is that China's economic reform and success manifest a long and innovative grinding-in process of state-market-society relations.

**Keywords:** embeddedness, Chinese characteristics, state-market relations, institutional clientism.

## 1. The Chinese "Pazzel" and the Research Question

The revolutionary and dramatic transformations in China in the 20<sup>th</sup> century qualify China to be an ideal "case study" for scientific research of political, economic and social change and development. Since the beginning of the last century, the world has witnessed theatrical changes in China's social-political-economic structures: Politically, the Chinese state and society transformed from a regional hegemonic "Middle Kingdom" to a periphery country, from an imperial multi-ethnicity monarchy to a short-lived republic of quasi-nationalism, and from a disintegrated and contending warlordism to a centralized revolutionary socialist state. Economically, China leaped forward from an agrarian state directly to a socialist centrally-planned economy, and then returned to a market-oriented economy. Ideologically, the Chinese value systems underwent dramatic transformations from feudalism to socialism, from Marxism to capitalism, and from collectivism to individualism. In historical retrospect the country experienced repeated shifts from crisis and failure to very rapid growth and industrialization.

One of the puzzling questions facing many scholars of social sciences and especially those who are engaged in Chinese studies is how to comprehend and interpret China's historical transformations marked by fundamental changes, failures and successes in the past four decades (Harding, 1987; Dirlik & Meisner, 1989; Hinton, 1990; Weil, 1996, etc.). Many are bewildered by the fact that China's increased economic privatization and marketization since the early 1990s has not triggered a simultaneous advance in political liberalization. Many studies have sought to explain why sources of social support for the political order have still remained sizeable, despite soaring problems in inequality, environmental decay, and corruption together with upsurge in popular unrest (Wang, 2003; Sausmikat, 2006; Zheng, 2009; Li & Christensen, 2010). In this connection, there are a number of related questions that need to be answered: what are the internal driving forces and the external influences behind these transformations? What are the important factors behind its economic success in moving the country from being an economy owned and controlled by the state (state socialism) to being one supervised and regulated by the state in combination with the market mechanisms (state capitalism)? How to conceptualize the role of the Chinese cultural and political embeddedness in attaining macro-policy independence and socio-political

stability? Since the mid-1990s, the world has witnessed the emergence of a self-confident and self-proclaimed economic development model - “market economy with Chinese characteristics” or “market socialism”. Today, China is depicted by the US-led world order both as a revisionist development model and as a revisionist emerging power that is aiming to change the existing order.

Nowadays, it is not difficult to notice the fact that much of the mainstream China-centered literature and media coverage reveal a strong sentiment of “China syndrome” - a phenomenon of hysteria that can be characterized by a mixture of psychological anxiety, emotional panic and emphatic demonization. Throughout the last three decades, either fascination or irritation with China’s unpredictable development trajectory has influenced Western scholarship and journalism, which often produce abrupt sentiments ranging from excessive approval and unqualified optimism to unwarranted revulsion and deep pessimism. One of the fundamental reasons for the constant failure of the West in predicting China’s evolution and transformation is its failure to understand and interpret its past and present.

### *1.1 Objective and Methodological Considerations*

Against the underlying assumptions of contemporary development and international relations theories that perceive a causal and lineal process of the Eurocentric modernization path driven by market, competition and technology, the paper intends to apply a combined interdisciplinary approach (political economy, political sociology, socio-cultural perspectives) to examine the unique characteristics of Chinese development since its economic reform in the late 1970s with a special focus on the relationship between *transformations* and *embeddedness*, i.e. how China is able to combine political, economic and socio-cultural *innovations* with the incorporation of market arrangements, the form of capitalist mode of production, and the role of state within that system.

The paper aims at analyzing the dynamics of state-market-society relations in China over the last three decades and exploring the features of Chinese socio-cultural and political embeddedness in the process of marketizing decision-making power and commodifying institutions. The Chinese style of market economy is a distinct form of capitalism characterized by active state roles and close state-business relations. The emergence of new institutional entrepreneurs and their role in institutional innovations play a positive role in encouraging marketization and decentralization of state capacities and public resources without falling into economic and social disembeddedness. In other words, the Chinese reform process consciously neutralized and reduced the market *dis-embedded* forces by a deliberate injection of embeddedness in a nexus of social, political and economic relations.

Theoretically and conceptually, the paper draws some inspirations from 1) Karl Polanyi (1957) and his insightful analysis on the transition from feudalism to capitalism, i.e. the phenomenon of the disembedded transformation from a “society with market” (pre-capitalist society) to a “market society” (capitalist society); 2) Talcott Parsons (1951) and his theory on social differentiation process in which a society transforms from a unified system (simplicity) into sub-systems (complexity); 3) David Wank (1999) and his theory of the Chinese “institutional clientism” in which China’s unique embedded process is realized and maintained through a dynamic state-market-society relationship. While Polanyi’s and Parson’s theories aim to explain the evolution of a society from a unified and embedded unity into multiple disembedded and differentiated entities, Wank intends to explore the incorporated and embedded relationships characterized by patron-client networks between state and market in China with a focus on the role of market clientelism for the dynamism of China’s economic development.

## **2. The Dichotomy of “Embeddedness” and “Dis-embeddedness”**

The notion of “embeddedness” implies that individuals and institutions are engaged in ongoing social relations, and they cannot be understood as being independent from one another (Granovetter, 1985, p. 182). It is the central concept of this study for analyzing how cultural and political factors influence economic activities and shape distinctive institutional forms. The application of the “embeddedness” concept is primarily to distinguish its opposite concept – “disembeddedness”.

The dichotomy of “embeddedness” and “dis-embeddedness” was conceptually derived from Polanyi’s economic anthropology. According to Polanyi’s thesis, the capitalist mode of production is very different from all preceding ways of organizing material life and social reproduction in which reciprocity (unenforced gift-giving), redistribution (of common wealth), and house-holding (familial autarchy) provided social foundations for economic structures, small and large, poor and wealthy alike (Polanyi, 1957, pp. 48-55). In line with Polanyi’s understanding, the transition of human society to market economy was a dual disembedded process: (1) the predominance of transactions and social interactions that are not submerged in social relationships but are based on economic self-interest; and (2) the absence of social control over the economic process of production and distribution (Vančura, 2011). Disembeddedness implies that economic relations (actors and institutions) are

separated from non-economic relations – a distinction between a *society with market* and a *market society* (Polanyi, 1957). The former refers to the fact that before the establishment of the capitalist mode of production, markets existed and played a complementary role in corresponding to the dominant economy with exchange of supplementary goods. Under the pre-capitalist socio-economic pattern of society, social relationship always prevailed over economic logic. The latter entails that society itself becomes an “adjunct” of the market, and a market economy can exist only in a market society because in such a society social relations are embedded in economy rather than an economy embedded in social relations (Wood, 1999).

A free market economy is an economic system directed, controlled and regulated by the market mechanism alone. All values are economically-based and nothing exists outside the free market framework. Order within the market system is maintained through the so-called self-regulating market mechanism that derives from the expectations that each individual is driven to pursue his/her own self-interest. Labor, land and environment are viewed as tradable goods and human beings are commodified as producers and consumers. Freedom is reduced to the right to choose among competing alternatives, and progress is assessed in terms of economic growth and wealth collection.

When market exchange becomes central to modern forms of economic organization, market rationality and calculation unavoidably determines modern ways of understanding and interpreting economic action and motivation. In this way, a market society is characterized by the “disembeddness” of market forces from a wider context of social relations, norms and institutions. Economic behavior is thus isolated as a discrete type of social action, governed by market logic, and based on impersonal transactions between buyer and seller. On the contrary, the concept of “embeddedness” refers to the extent to which economic rationality and practice is constrained by non-economic institutions. In other words, it denotes that socio-cultural and socio-political factors play a vital role in influencing economic activities and shaping distinctive institutional forms.

### 2.1 Social and Structural Differentiation

Parsons’ theory of *social evolution* (1957) sees the process of social differentiation as involving three stages - a process of differentiation; a process of adaptation and reintegration, and a process of a more general system of values which holds the more complex society together. The theory explains the increased process of system/structural differentiation of modern society as a way of responding to the increased complexity of its environment. The constant creation of subsystems deals with such an increased complexity. Each subsystem is also interactively connected with other subsystems.

Structural differentiation explains that the development of every society has to pass a process through which a unified social system is structurally *differentiated* into specialized subsystems, such as economy, religion, politics, and law. The formation of subsystems is an imperative consequence of responding to the differentiations in connection with the changing environment. As a result, a social system becomes more and more complex with each subsystem interacting with other subsystems (Figure 1).

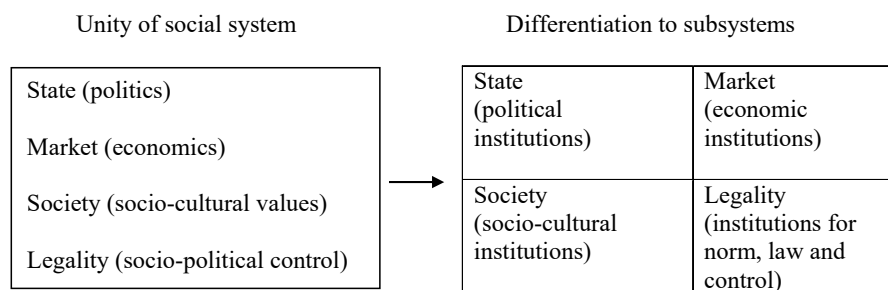


Figure 1. The differentiation of social system

When a functionally unified social system is divided into subsystems, its integrated legitimation and problem-solving means and mechanisms also become separated into subsystems (see Figure 1). Each subsystem is not able to independently generate the previous unified legitimation, and hence it has to receive “contributions” from other subsystems. Each subsystem is also specialized in the production of certain general values, but it does not determine how these values are to be used by other subsystems. For example, the profit and surplus value (the market law) can be used in a number of ways. But it has to depend on the “inputs” from other subsystems through an interchange of relationship, e.g. from polity (coercion) and socio-cultural norms (consent). Seen from the

perspectives of Parsons' theory on social evolution (1951), when the legitimation of a social system (equilibrium) becomes dependent on the subsystem's output, the maintenance of legitimation needs new *adaptive* mechanisms of integration, coordination and control in order to incorporate the "contributions" from the other subsystems.

The Chinese marketization process clearly verifies a similar process and effect of social and structural differentiation in which China transformed from a society of a highly unified system (unified legitimacy and value system) to a post-reform society of differentiated and divided subsystems with each subsystem generating its own systems of legitimacy and value. The pre-reform embedded "unity" was maintained by an authoritarian political system and a socialist political economy through:

- (1) a centrally-planned economy characterized by cooperative and state (public) ownership and control of the means of production and distribution;
- (2) a centrally planned allocation of society's resources;
- (3) a universal elimination of economic and political inequalities and class privileges;
- (4) a full utilization of human potentials and the dominance of the interest of the immediate producers at the workplace and of working people in all spheres of society;
- (5) a centralized line of politics and ideology in command;
- (6) a populist and egalitarian welfare and social security system.

The differentiation of the unified social system in the aftermath of the post-Mao economic reform period was a causal consequence of the economic reform policies that gave full play to market disembedded mechanisms. The reform policies included privatization of ownership and the means of production and distribution; marketization of resource allocation; acceptance of economic inequality and capital privilege; emphasis on science and technology as the essential productive forces; promotion of professional and entrepreneur classes; and commodification of welfare and social security. However, at the same time there were also strong *embedded* forces by historically shaped structures, such as the active role of the Chinese party-state and local governments, the adaptive political and ideological "sinicization", the various forms of property and business ownership, the traditional culture of *guanxi* and clientele-based social relations. The constant struggles between forces of embeddedness and disembeddedness symbolized a process of socio-political transformation in which economic practices taken by individuals and institutions were largely refracted by socio-political relations within which they function. Therefore, to understand how cultural and political factors influence economic activities and shape distinctive institutional forms, one has to understand the features of China's historical and socio-political structure.

### 3. Socio-Cultural Embeddedness

There is a consensus among scholars of China studies that China is not a nation-state, it is fundamentally a civilization state (Pye, 1990; Jacques, 2011). It is important to understand the fact that the Chinese sense of identity – China's sense of being China and the Chinese sense of being Chinese - comes from its long history as a "civilization state." Such a historically unique identity has shaped a distinctive notion of the state, family, social relationship (*guanxi*). Thus, it is paradoxical to apply the Western "nation state" concept and unit of analysis to analyze China, a concept that has its historical root in the formation of the modern nation-state system in Europe. The most important value of Chinese political culture throughout its centuries of civilization is cultural and political unity and the maintenance of the Chinese civilization.

The English word "country" in the Chinese language consists of two words "国家" (*Guo Jia*), i.e. *Guo* refers to "state" and *Jia* refers to "family". This explains that historically, politically and culturally, the Chinese "state" – as a socio-political structure - has been defined and governed under a two-polar system, i.e. at the very top it is the state (the ruler) and government, while at the bottom it is the family (the basis social unit). Rights, obligations, roles and responsibilities at both levels are supposed to be clearly defined and understood. Such a system is ideologically maintained by Confucianism - China's central philosophical and value architecture. The Confucian teachings on "reign and rule in a kingly way" (王道) for the top, while "loyalty and filial piety" (忠孝) for the bottom play a vital role in defining interactive relationships between the state, family and individual. Here, it is important to notice that the middle layer between the state and family – the "society" or "civil society" – is missing (see Figure 2 below).

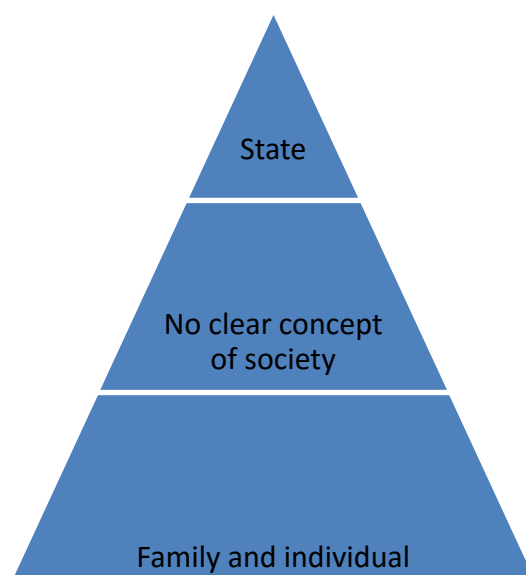


Figure 2. China's historical and traditional two-layer structure

It is believed that the lack of a dynamic middle layer of “society” and the set of Confucian ethics and value system, which emphasizes the group over the individual, authority over liberty and responsibilities over rights, weakens the development of individual awareness and provides no legitimacy for autonomous social institutions. In contrast, the historically evolved strong and vibrant middle layer of civil society in the West, together with a number of others socio-cultural and socio-political features, is seen as being “unique”, but not “universal” (Huntington, 1996). Seen from the Weberian culturalist perspectives, the Chinese family-based social structure and the Confucian value system were not able to breed capitalist economic orientation and organization; and the rise of market capitalism in Europe was an outcome of unique cultural phenomena and institutional development which found their clearest expression in the capitalist economy (Weber, 1958, 1968).

Historically, the sustainability of the Chinese social system was built on loyalty to the state on the one hand, and filial piety to the family on the other (Figure 2), which made the political patriarchy and patrimonialism possible. Under this type of socio-political formation, the middle space between the state and family, namely *society*, was invisible. China's two-layer socio-political structure (state-family) is very different from the Western three-layer structure (state-civil society-individual). This is why many western political and democracy theories cannot be fully applied in analyzing and understanding Chinese cases because many of the theoretical assumptions and foundations are derived from the development of civil society and middle class and are based on the origins present in Western historical experiences. For example, the Gramscian “hegemony” theory defines the state as *force plus consent*, and sees hegemony as an ideal combination of *political society* (state) that organizes force, and *civil society* that provides consent (Gramsci, 1971, p. 263). In other words, historically, China does not have the tradition and does not have a middle space “society” where a complex of attitudes, values, and institutions that are amalgamated and reified under the term “civil society”.

Dialectically, seen from a different but a positive perspective in support of the paper's argument, the lack of a “society” layer was a fortune rather than misfortune in the way that the damages and costs of differentiation and disembeddedness brought about by the economic marketization process were painfully absorbed and digested by families and social networks without creating a heavy “societal burden” that could lead to social unrest and political disorder. Traditionally, the family, the extended families and the kinship-based social relationships functioned as the source of welfare and employment for members who needed assistance in times of trouble and disability. The role of the state used to maintain a peaceful and stable environment for the functioning of family-centered welfare and employment structure. Even during the socialist period when the state invested heavily to build up a public social security and welfare system, there was still a dual track of welfare structure. According to Titmuss' formulation, such a dual track was based on an institutional approach for the state sectors and the urban populations in terms of medical care and pensions, and a residual approach for the rural areas where

social resources were allocated only when family and the market failed to make the delivery (Titmuss in Selden & You, 1997).

The Chinese family structure together with the deep-seated Confucian value systems played a vital role in absorbing or lessening the pressure brought about by the differentiation and disembedded consequences of the marketization process, such as free prices, the removal of subsidies, the opening up of economies to international trade, freely convertible currencies, privatization of the state-owned companies, absorbing foreign investment, closing inefficient enterprises and laying off of redundant workers. Fortunately, China's strong traditional cultural values were able to balance, to a certain extent, the forces of "disembeddedness" by the economic marketization and commodification process. The cultural and social embeddedness of economic practice was particularly important during China's early reform periods when new institutions were being formed to serve and comply with the market forces.

Chinese families were also one of the country's core economic actors during the reform period. Many of the small- and medium-sized enterprises, which were also called Township and Village Enterprises (TVEs), were family-based businesses. TVEs became a major driving force in the 1980s and 1990s in contributing to economic growth, creating employment and optimizing economic structure (Putterman, 1997; and Fu and Balasubramanyam, 2010). TVEs were largely seen as one of the most successful factors in the country's transition to a market economy. The majority of jobs in the country's rural areas were provided by these enterprises, which played a vital role in reducing the employment pressure and maintaining social stability. The contribution of the role of family-based enterprises has been clearly recognized by the Chinese government:

According to statistics, 99 percent of Chinese enterprises are small- and medium-sized, which at present provides jobs for 75 percent of the country's employed, produces more than 60 percent of exports, and creates 45 percent of national tax revenue, 70 percent of increased industrial output and more than 55 percent of the gross domestic product. ...

It should be stressed that small- and medium-sized enterprises have become fundamental to reducing employment pressure and maintaining social stability. The absolute majority of jobs in the country's rural areas are provided by small- and medium-sized enterprises, especially township enterprises. (China Questions and Answers, China.org.cn)

"Social connections" or "social networks" lie at the heart of China's socio-political order, its economic structure, and its changing institutional landscape. They reflect cultural and social conventions, norms, values and beliefs that can be translated into socio-cultural "embeddedness" in shaping China's economic performance (Thomas, et al., 2002). They are a useful analytical tool through which we can understand cultural embeddedness in the institutions-performance connection as well as the complex interweaving of cultural traditions and economic practices. To conceptualize the nexus between Chinese business practices and their social foundations is a good approach to understanding institutional foundation for economic transactions in Chinese business settings. As Chung and Hamilton point out,

The logic of social relationships - or what we call *guanxi* logic - is embedded in daily practices of the Chinese business community. Rather than making economic decisions less "economic", relational rules embedded in *guanxi* places interpersonal business transactions within a prescriptive framework, thereby increasing the calculability of economic outcomes. *Guanxi* logic is, therefore, a socially meaningful way to enhance economic rationality. (Chung & Hamilton, 2001, p. 325)

#### **4. Political Embeddedness**

For centuries, the Chinese state has been enjoying overwhelming authority, and the state is seen as the representative, the embodiment, the guardian of the Chinese civilization. In contrast to Western history, the power of the Chinese state has not been seriously challenged by rivals (aristocracies, churches, capitals, merchants, etc.). The Chinese views on the state are very different from those of the West in the way that the state is seen not only as the defender of the Chinese civilization but also as the patriarch, the head of family. The state's "natural authority" is embedded in the cultural consciousness of Chinese people.

In the contemporary context, it is not unusual that the Chinese state, in its dual capacity of being both a political and economic actor, plays a "guardian role" in economic development and in the market. The state is everywhere in the market, and the state firms are the main driving forces and key internal and external players (Li and Shaw, 2013), while private firms depend on state patronage. China has a long history of state-led development project, such as the Grand Canal since the 5<sup>th</sup> century BC (a historical symbol of a state-led infrastructural project). According to the concrete evidences by some studies, "China's and political institutions were imbricated in the

market-development project. The state, especially local (province-level and below) state bureaus, became focused on economic development and was deeply involved in private-sector activities” (Haveman, et al. 2014, p. 39). Political embeddedness not only played an indispensable role in nurturing the emergence of sustainable markets, but also became entrenched in the institutional architecture of the business system of China (Krug, 2012). At the concrete business level, political embeddedness “incorporates personal links that bind private capital holders to the party-state through connections that are layered with reciprocal affective components. Such close relations work against the potential interest that private capital holders might have in leading or joining efforts to press for fundamental political liberalization” (McNally & Wright, 2010, p. 189).

Political embeddedness implies a continuous “Sinicization” process. The notion of Sinicization entails a spontaneous process of absorbing new or foreign ideas while forcing them to be mixed with and embedded into Chinese native practices (Li, 2004; Li & Shaw, 2013). Sinicization is expressed in two important ways in today’s China: policy consistency and ideological/theoretical modification. It secures the stability of state policy and regulation and the access to state-controlled resources, which is highly conducive and rewarding to politically embedded companies in competitive markets (Haveman, et al. 2014). Externally, political embeddedness in terms of policy regulation strengthens China’s competition in the regional and global market and, while internally, it ensures unity and stability in a path-dependent economic development - a new economic order is derived from balancing embeddedness and disembeddedness with the remains of the old one.

Political embeddedness in terms of ideological modification refers to a “Sinicizing” process of transforming ideas and concepts into Chinese-like ones or to change or modify them by Chinese influence (Li & Christensen, 2010). The Chinese reform politics understand the great importance of promoting market capitalism without cognitive disconnection with the heritage of its political legitimacy of the existing order. One way to achieve political embeddedness is to apply the “framing power”. The “framing power” refers to the capacity of defining and redefining ideas, concepts, discourse, and rhetoric which bear policy implication, and which reflect ideological and institutional adaptation. This is because political discourses represent not only a way of expressing viewpoints but also a weapon to legitimize changes as the way they are meant to be (Li and Christensen, *ibid.*). Figure 3 below shows the historical process of ideological and political sinicization or internalization in China from the way that Chinese Marxism, Mao Zedong thought, and socialism emerged and developed, and that their concepts have been elaborated and employed, to the way that Dengist capitalism was developed and regulated, and that new political discourses needed to be invented in order to cope with emerging problems.

Figure 3 below implies that the power transition process of the Chinese leadership has been characterized by the emphasis in continuity in fundamental political and ideological principles, policy coherence and elite politics. It also entails that certain “amendments” (CCP’s internal struggles) are necessary in order to address the problems from the previous leadership and to respond to the emerging challenges faced by the current leadership. The “Deng Xiaoping theory” can be understood as an attempt to amend the rigid period of Maoist socialism and socialist plan economy, while the “Three Representative” under Jiang Zeming’s leadership aimed to cooptate the rise of various kinds of capitalist class brought about by Deng Xiaoping’s “development-at-any-cost” policy. The “Harmonious Society” and “Scientific Development” ideas by the Hu Jintao Administration were designed to cope with the problems created by the pro-capital policy of the previous leaderships, which led to rampant inequality, corruption and environmental decay. The current “Chinese Dream” politics attempted to address the questions concerning which direction China is going and to reconstruct a new hegemony at the levels of language, social relations, politics and practice, societal development and national consciousness (Li, 2015).

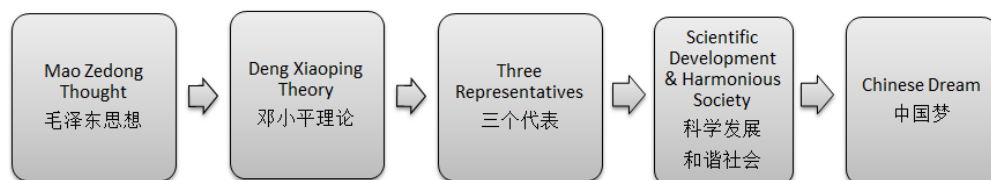


Figure 3. Political embeddedness in the nexus between policy necessity and ideological modification

Political reform toward democratization was seen to be necessary; however, it was not understood as power differentiation and decentralization shaped by the Western style of representative and electoral democracy. Rather, it was defined in narrow and technical terms, referring to the implementation of measures that aimed to improve



the efficiency of the government and mobilize resources in order to let economic reform move forward. In the course of managing the transformations brought about by the economic liberalization process, political embeddedness ensures the role of the state as a proactive player – an initiator, a planner, an organizer – in the capacity of being both a policy-maker and policy-implementer. The resilient nature of the Chinese political embeddedness implies that as long as the state is transforming and adapting itself in accordance with China's socio-economic changes, the basic structure of its dominion over the market and society will not be fundamentally altered (Zheng, 2009).

The economic reform, on the one hand, implies a necessity to reorganize society, but it can also, on the other hand, imply that a breakthrough in establishing a new order is not necessarily the outcome of the final collapse of the old one. Rather, it is an outcome of social reorganization initiated or imposed by a dominant political force or a coalition of forces. Social reorganization can be realized through passive revolution in which the survival of an existing order, albeit the emergence of a crisis, is made possible by the absorption of social contradictions which are not necessarily resolved, but are contained or transformed into new forms of relations (Li & Christensen, 2010).

The main course of the Chinese economic reform has been implemented with many sub- or mini-processes of “political fittings”. “Political fittings” refers to the fact that the Chinese party-state is struggling to adapt itself or to enforce itself to respond or to adjust to the disembeddedness pressure from both the domestic and transnational market forces. In other words, China's post-Mao leadership undertook a modernization process through *sinicizing* Western market capitalism and incorporating “Chinese characteristics” without disembedding its political imperativeness and socio-cultural stamps. Beijing has been struggling to construct an awkward mixture of combining cultural and political logos (Chinese characteristics) and market forces (law of value). “Political fittings” characterized by “Sinicizing adaptations” has been a historical phenomenon since the emergence of the Chinese Communist Party led by Mao Zedong. Each new generation of political leadership had to resolve the problem heritage from the previous one through reconstructing a new hegemony at the levels of language, social relations, politics and practice, societal development, people's consciousness, and even morality.

#### 4.1 State-market Embeddedness

Being the first case of rapid industrialization outside the Western cultural and geographical spheres, the remarkable success of Japan and the East Asian newly industrialized economies (NIEs) became the object of various academic studies and interpretations in the 1980s and 1990s (Wade, 1990; Chan, 1990; Lee, 1993; Li 1995). In 1993, The World Bank published a special report on *The East Asian Miracle* (World Bank, 1993) in which the role of East Asian states was seen as playing positive and market-friendly roles in promoting economic development. This World Bank report generated a global debate on the various factors behind the East Asian success, leading to the emergence of various literature on exploring the East Asian economic success from the perspectives of state-market relations. China's economic success was generally considered as a continuation of the success stories of Japan and East Asian NIEs.

There is much existing literature on the topic of Chinese state-market embeddedness, such as McNally and Wright (2010), that examines the nature and implications of the political embeddedness of China's private capital holders. The Chinese embeddedness can also be applied in the previous discussion on East Asian “developmental state”, which is a highly useful concept in understanding the interactive social relations between economic actors and institutional agents.

#### 4.2 The Chinese Developmental State

As said, the Chinese economic development experience can also be explained by referring to the core features of the East Asian economic development paradigm of what Chalmers Johnson calls the “Capitalist Developmental State” (Johnson, 1982, 1995). China's economic catching-up strategies clearly resembled the East Asian experiences: building on a strong authoritarian leadership and an elite bureaucracy pursuing developmentally oriented policies, including the direct role of the state in governing the market. In the 1990s, there were plenty of literature on the themes of the newly industrializing countries in East Asia, such as Evans, Peter (1995), Haggard, Stephan (1990), Wade, Robert (1990), Weiss, Linda & Hobson, John M. (1995), Woo-Cumings, Meredith (1999), etc. Through a similar analytical lens, China's success in the last three decades of economic reform can be understood as having been led by a strong and pro-development state that is capable of shaping national consensus on maintaining overall political and macroeconomic stability in order to pursue wide-ranging economic modernization. Like those of the East Asian development states, there are a few unique features of the Chinese developmental state (CDS) that have fostered the embedded relations between the state and the market:

1) The CDS sees economic development as the over-arching objective of the state. It struggles to maintain socio-political stability and to keep a manageable equality in distribution in order to prevent crisis between capitalist accumulation and class/sectoral exploitation. It plays a leading role in fostering, guiding and ensuring economic growth and technological modernization over the long-term.

2) The CDS puts forward national development goals and standards that are internationally-oriented and that are based on non-ideological external referents. It is eager to absorb worldwide development experiences without abandoning its own policy-making sovereignty as to when, where and how to adopt foreign ideas and practices. The state is determined to plan an active role in financial control over the economy even in face of international pressure to liberalize its financial sectors.

3) The CDS sets up an infrastructure of productive forces and labor markets which target the global market so that its export-oriented economic growth is sustainable on a long-term basis. Its national education system is also designed to serve the economic growth and overseas market.

4) The CDS initiates state-driven industrial policies with macro national planning and national goals. It recognizes and empowers bureaucratic elites capable of administering the system and decision-making without being subjected to political influence by various interest groups so that it can function professionally and independently. On the other hand, economic policy-making processes involve close government-business collaborations in order to correctly respond to market signals with policy adjustment.

5) The CDS believes that free market transactions need explicit “administrative guidance” and “directed credit” to pick up the winners or prioritize some industries over others. State and private sectors are promoted to work together to pursue economic goals. Government not only regulates business enterprises but also assists them with overheads and other preferential policies. It channels foreign direct investment to target strategic private businesses while business enterprises assist the government to reach social and economic objectives.

6) The CDS does not allow liberal ideologies to confuse the national consensus and does not permit the development of political pluralism that might challenge its goals. It does not see Western democracy as a political system on its own that will necessarily lead to economic and social development. It believes that what a country needs at its initial developmental stage is discipline more than democracy.

In other words, the state or other organizations representing the public interest always try to operate and regulate the free market economy. This type of state-market relations, seen from the Polanyian perspectives, makes the Chinese market-driven economy “re-embed” itself in the Chinese society and subordinate itself to the Chinese socio-cultural and socio-political realities. The positive outcome is that, as one study correctly points out, “China’s capitalists appear to have little interest in pushing for systemic political reforms, but instead seem to seek to embed themselves in the party-state, thereby perpetuating Chinese Communist Party (CCP) rule” (McNally and Wright, 2010, p. 189)

## 5. Empirical Findings

This study finds a great deal of empirical support to its central thesis on the role of embeddedness in China’s economic success from David Wank (2001), who provides a framework for understanding the embedded Chinese state-market relations in which the previous political power by “politics in command” is commodified to accommodate and negotiate with the market power by “economics in command”. One of his theoretical angles is *institutional clientism*, which offers a good analytical tool to examine China’s unique state-market-society embedding process through the lens of patron-client ties between entrepreneurs operating private firms, and officials staffing the state administrative, distributive and production institutions. This “matching” is realized and maintained through a dynamic relationship, neither strictly political nor purely economic in character.

Wank’s contextually rich and intellectually incisive studies were based upon almost two years of his ethnographic fieldwork in one of the economic zones in Xiamen City, Fujian Province. It was one of China’s five special economic zones, from which he conducted a close examination on the distinctive features of the interactive relations between private business and the state at the local levels. On the basis of his empirical field studies, he developed an interesting conception which he calls “the institutional commodification account”. In the first part of his *Commodifying Communism*, Wank described the nature of business in the late 1980s in Xiamen, a southern coastal city that was designated a Special Economic Zone. The focus of this section of the book is a detailed description of how private business operated and the role that networks of social and political relations played in shaping these operations. In the second part of this book, the author speculates about the implications of these relations for various political and economic outcomes. The book compares China’s economic performance since

the implementation of reform with the performance in other transition economies, and he speculates about the role that different social, cultural and political structures played in creating these differences.

Wank's analytical framework for understanding China's dynamics in state-market-society relations over the last three decades examines how the embedded dynamics were generated in the process of China's market transition. What is important is to find the unique features of embeddedness of Chinese socio-cultural and political adaptation through marketizing decision-making powers and commodifying state institutions and distribution mechanisms. Wank's book shows in great detail the state-market embedded process of interweaving the various forms of co-operation between the public and the private: "the co-operatives", where the "patronage" and the site were provided by the local government while the capital came from private entrepreneurs; and "the co-enterprises", in which the "public status" was bestowed by the SOE and the funds were private; as well as "leasing" (particularly of hotels and restaurants) to private operators, etc.

The conceptual strength of David Wank's work lies in the fact that his notion of "institutional clientism", based on his ethnographic study of the role of personal-social ties between private entrepreneurs and local officials, explains vitality and dynamics behind the success of the re-organization of China's emerging market economy. An underlying question that Wank intends to answer in his book is: how does a market economy emerge from a communist system? In connection with China, this question is quite specific: how can the emergence of market mechanisms and state political logic coexist and interact? His analysis finds that the resurgence of private enterprise as an outcome of the economic marketization does not lead to any weakening of the patron/client relationship as neoliberal theories would imagine, but rather to the emergence of new, more commercialized or cash-based forms of clientelism – a distinctive feature of "a market economy with Chinese characteristics."

### 5.1 Empirical Reflections: Institutional Clientism

As a strong empirical support for this paper's core thesis, the accounts of Wank's empirical findings can be synthesized into a framework of understanding China's unique state-market relations:

- Institutional clientism implies the transformation of institutionalized social relations from monopoly to marketization of the country's resources, either through an official's position or through clientist ties between private actors and office-holders. It is an integrating process in which policy-making and controlling power of state institutions are incorporated into economic calculations and business promotions that reflect market commodification values.
- Government policies and decision-making rationalities on resource allocation are integrated into market competition logic, but nevertheless are centered on personal or network relations including private businesses that seek to benefit from government policies and have a share of these resources. The state's previous monopoly is replaced with new regulatory monopolies facilitating while constraining market interactions such as licensing, quota allocations, etc. This type of state-market clientist relations can promote efficiency in an emerging market because it permits long-term relationship rather than short-term calculation.
- Institutional clientism entails a reconfiguration process in which government politics are more directed toward market competitive ends. However, due to the fact that "social action reflects the evolutionary systemic (macro) constraints as well as the individuated (micro) constraints of personal history and status" (Wank, *ibid.*, p. 30), the new market system cannot delink itself entirely from the old system in which the old legacies both create and constrain processes of cooperation and competition. This is because institutions are not neutral and they are culturally and socially conditioned.
- Based on an institutional architecture of social trust, the new clientelist relations promote state-market cooperation and avoid an either-or situation: either the politics politicize the market or the market marketizes the politics. In other words, the market itself has no objection to politics as long as it cooperates with the market mechanism. However, the emphasis is placed on the maintenance of social order and political predictability, and such expectation has to be incorporated into market interactions.
- The patron-client relationships embedded in the institutional clientism are based on social trust that reflects the interests of both sides; private businesses are keen on their ties with officialdom. In this type of relationship, "power is embodied not only in the monetary gains derived from trade but also in position in network. Diffuse forms of social, symbolic, and cultural capital shape relative resources and outcomes in interpersonal bargaining" (*ibid.*: 31). To do business is understood not solely as utility-maximizing in market transactions but as cultivating the personal and social relations (*Guanxi*).
- Since the patron-client relationships are based on social trust that reflects the interests of both sides, private business is keen on its ties with officialdom. In this type of relationship, "power is embodied not only in the

monetary gains derived from trade but also in position in a network. Diffuse forms of social, symbolic, and cultural capital shape relative resources and outcomes in interpersonal bargaining” (Wank, 1999, p. 31). To do business is understood not solely as utility-maximizing in market transactions but as cultivating the personal and social relations (in Chinese “*Guanxi*”). The Chinese party-state likes to dine and dance with private business so that it is able to continue to control the politics while becoming enriched and strengthened by the market.

- The public-private clientelism unveils that formal legal property rights and the definitions of an individual entrepreneur are less important than the “social environment” in determining the outcomes of business activity and market performance. In other words, having a good relationship with local Party and state officials is much more central for securing successful business than the formal ownership classification of that enterprise. Commercial rationality in China is less determined by relying on market opportunities than by cultivating strong ties with “*Guanxi*” that in turn will facilitate those market opportunities.

These characteristics of “network or relational capitalism” (Boisot & Child, 1996) have given the Chinese state two advantages. The first is that the market reform has not brought about politically independent social forces and autonomous business interest groups which can challenge the state’s power. Although private economies have become one of the main sources of government revenue, the entrepreneurial classes still rely on the political and institutional environment to survive and prosper, and they still need the state’s protection to solve their disputes and conflicts with other subordinate classes as well as to reduce their social vulnerability and precariousness. The second is that the emergence of private enterprises in reforming China’s socialist command economy has not reduced the embeddedness of organizational decision-making, but rather it has spawned the development of new forms of embeddedness. It demonstrates the institutionalization of a symbiotic relationship between private business and government officialdom as the communist system transforms into a market economy.

The application of Wank’s analytical findings intends to challenge not only the classical economic understanding of an ideal-typical, property-rights-based and legally bounded market image, but also the mainstream social and cultural economic perception in which the market can be socially and culturally patterned. The social embeddedness of private economic practices and institutional behavior has become the core point of departure in economic sociology. Seen from the perspectives of conventional theories of economic society, it is understandable that business transaction in China has been traditionally embedded in complex networks of social relations which reflect interpersonal and intercorporate ties. This study argues that the Chinese unique set of inter-business and market-government relations is creating embedded symbiosis.

## 6. Conclusion

There is a never-ending debate on state-market-society relations in development studies. The relationships between them are so inherently dialectical that forces of embeddedness and forces of disembeddedness create intrinsic dilemmas of reconciling market, society and state in a capitalist economy. Economic development is sometimes seen as being determined by how the problems are solved in the interactions between state, market and society. Different schools of thought put different emphases on dealing with these relational predicaments.

The post-Mao Chinese reform experience reveals a constant “challenge-response” process between forces of modernization and marketization (differentiation and disembeddedness) and forces of socio-cultural and socio-political integration (adaptation and embeddedness). The Chinese success shows that China has been struggling to reduce, to a certain extent, the destructive effect of Polanyi’s “market society” phenomenon --- a wholesale “disembeddedness” of market relations from a wider social context --- for instance, contract-based market economy overlaps with customary forms of kinship exchange via trust networks of horizontal associations of personal relations (*guanxi* relations). Social networks, relations of trust, cultural traditions, shared ethnicity, informal norms, etc, facilitate and regulate economic exchange to various degrees. Social networks are neither simply social, nor strictly economic in character. In various ways, non-market exchanges (such as gift exchanges) can involve degrees of market-oriented calculation, such as calculations of equivalence, utility and value.

This research posits that the rise of a Chinese style of capitalism is a long dialectical process of struggles between the forces of disembeddedness, such as the market impact and transnational capital, and the forces of embeddedness, such as the role of politics and historical and cultural structures. The evidence by the author’s own studies and especially by David Wank’s research findings demonstrate that the emergence of private enterprises in reforming the Chinese socialist economy did not reduce the embeddedness of organizational decision-making, but rather it spawned the development of new forms of embeddedness. The Chinese experience demonstrates the institutionalization of a symbiotic relationship between private business and government officialdom as the

communist system transforms into a market economy. Institutional clientelism played an embedded role in unleashing the dynamism of China's emerging market economy

The author argues that China's economic achievement is moulded by the "Chinese characteristics", i.e. the cooptation of market forces (private sector) by political "passive revolution." The transition from the previous "politics in command" to the current "economics in command" went hand in hand with the emergence of new "historical blocs" (social networks between the state and market) that are the bases of the production and reproduction of the market, trust and politics. The Chinese party-state is making politics a positive practice for entrepreneurs to align with while, at the same time, its legitimacy is consolidated through an active role in creating "embeddedness" in economic development. Such deliberate embeddedness is realized through a state-directed "framing" process in which intentional and planned policy-makings based on social and political concerns are injected into the market liberalization process.

The Chinese case suggests that economic action and rationality is guided and shaped by social relations and political structures in complex and contingent ways. The author concludes that the Chinese economic success characterized by a Chinese style of capitalism reflects a series of embedded adaptations in cultural norms and practices, in institutional structures, in internalized rules and in political frameworks. The Chinese success shows that the transition and transformation process from Polanyi's "society with market" to "market society" must be instituted, regulated and reproduced via a range of social networks, ideas and practices.

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## Notes

Note 1. For many years, one of the author's research focuses has been on China's dramatic socio-economic and socio-political transformations and its development trajectory in the past decades. About 20 years ago, the author did his PhD dissertation on *The Yin and Yang Behind China's Transformation: A dialectical assessment of the Chinese revolutions from Mao to Deng* (unpublished). The aim of the dissertation was to offer an open-handed conceptualization for interpreting China's transformation from Maoist socialism to Dengist capitalism, and to provide a framework for understanding important issues concerning the Chinese Revolution, Chinese socialism as well as the on-going economic marketization process. Especially the ideological transformations taking place in China from feudalism to socialism, from Marxism to capitalism, and from collectivism to individualism were studied by the author, who published a number of articles on the topics related to Chinese socialism (1999a) and Chinese welfare reform (1999b).

Note 2. The wording of "capitalism" as a socio-economic system is seen by the Chinese party-state as being politically incorrect and unacceptable in formal and official Chinese contexts. Therefore, expressions such as "socialist market economy" and "market socialism" are officially applied in China.

Note 3. David Wank is Professor at The Faculty of Liberal Arts, Sophia University, Japan. He uses ethnographic and historical data to address sociological questions of state and society in China. He has been working on culture industries in China and the United States, and the global rise of China. In 1999, he published *Commodifying Communism: Business, Trust, and Politics in a Chinese City*. New York: Cambridge University Press. This book is based on his fieldwork in China in the early 1980s, and his research aimed to discern the political consequences of emerging markets for transitional communist states and societies such as China. The great contribution of David Wank's research, seen from the author's viewpoint, lies in the findings of his study on the embedded nexus in China's economic reform process between the market, the social structure and political change. Later on, Wank also published an edited volume on *Social Connections in China: Institutions, Culture, and the Changing Nature of Guanxi*. New York: Cambridge, 2002. The book deals with the role of Chinese "Guanxi" ("social connections" or "social networks") in business and social dealings in China today.

Note 4. Guanxi means personal "relationship" and "connection". In China, it is the right "Guanxi" that makes a big difference in ensuring successful business. By getting the right "Guanxi", enterprises and institutions can minimize risks, frustrations, and disappointments when doing business in China. Acquiring the right "Guanxi" with the right people, the right network and the relevant authorities will determine a business' competitiveness.

Note 5. The term used by Gramsci refers to a process in which the bourgeoisie elite/class in advanced capitalist societies responds to an organic crisis by making necessary compromises and modifications as well as social reorganizations so as to re-establish its hegemony.

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